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Opening Statement of the Honorable Chuck Grassley, Ranking Member
Senate Finance Committee
Budget Hearing with Secretary Michael Leavitt
February 7, 2007

Thank you, Chairman Baucus. And thank you, Secretary Leavitt, for coming to discuss the President's spending proposals related to Medicare and Medicaid. I look forward to hearing about the Administration's priorities for the Department of Health and Human Services and discussing the details of the President's budget.

The President's budget proposes substantial savings in the Medicare and Medicaid program. Together, these provisions would decrease spending by almost \$97 billion over the next five years. Altogether the President's budget would erase the budget deficit by 2012. This budget proposal comes in the footsteps of news of the fiscal year 2006 unified budget deficit actually being lower than originally forecast and also lower than the previous year's budget deficit. As encouraging as the short term fiscal outlook may appear, we can not ignore the discouraging long term fiscal outlook.

Earlier this year, heads of the Federal Reserve System, the Government Accountability Office and the Congressional Budget Office all testified before the Senate Budget Committee on the impact of entitlement spending on the budget.

Now many have raised alarms about the magnitude of the proposals in the budget for Medicare and Medicaid. In reality, these proposals will only slow the growth in Medicare in 2012 by less than one percentage point. If Congress enacted all of the Medicaid proposals, it would change the annual growth in *Medicaid* spending in 2012 from 7.2 percent to 7.1 percent.

It is clear that as baby boomers become eligible for Social Security benefits as early as 2008 and Medicare benefits as early as 2011 and medical costs continue to rise faster than the rate of inflation, spending for entitlement programs will become unsustainable. Spending for entitlement programs like Social Security, Medicare and Medicaid already total about 40 percent of federal expenditures or over eight percent of the GDP.

As many of us here will recall, last year there were efforts to modernize Social Security to strengthen

its long term viability. Unfortunately, we did not get very far because some from the other side of the aisle justified inaction on Social Security on the grounds that the financial health of the Medicare program was a more urgent issue.

Well, here we are one year later. I certainly hope that we can work on a bipartisan basis to address how entitlement spending such as Medicare is taking up more and more of the federal budget. Congress faces some tough choices.

Over the years, efforts have been made to slow the rate of growth in entitlement spending. Last year, the Medicare Trustees made an official determination of “excess general revenue Medicare funding” as Congress required in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or the MMA as we like to call it. If the Trustees make a similar determination this year, the MMA requires the President to propose legislation to address entitlement spending in next year’s budget.

During last year’s Committee hearing on the fiscal year 2007 budget, I don’t think I shocked anyone by saying that any more reductions of a significant scope could be difficult to achieve that year especially after we had just passed the Deficit Reduction Act of 2005.

I don’t think I will shock anyone today by saying that any more reductions of significant scope will be difficult to achieve this year. For starters, some of the same challenges we faced last year are still here today.

One area we will probably need to address this year is physician payments. The physician payment sustainable growth rate (SGR) formula is still fundamentally flawed. While the Tax Relief and Health Care Act of 2006 eliminated a five percent cut to physician payments and provided a one-year, zero percent update instead, plus the opportunity to earn a 1.5% bonus for reporting quality measures, physicians will face even more severe payment cuts in 2008.

And over the next five years, Medicare payments to physicians under the SGR are projected to be cut five percent a year and could decline a total of 25 percent during that period. This could threaten access for beneficiaries. At the same time, enrollment in Medicare Part B is expected to grow rapidly over the next several years as baby boomers become eligible for benefits, rising from an estimated 41.4 million in 2008 to 45 million in 2012.

A key priority for the Senate Finance Committee this year will be the reauthorization of the State Children’s Health Insurance Program or S-CHIP. I want to associate myself with remarks that Chairman Baucus made during the S-CHIP hearing last week that put S-CHIP reauthorization at the top of the agenda for work in the health arena this year.

I am interested in learning more about the President’s plan to reauthorize S-CHIP and look forward to working in a bipartisan manner to improve this critical safety net program.

The President’s budget includes a proposal for S-CHIP that offers about \$6 billion in new funding. Some questions have been raised about this proposal and I hope you will give us more details today.

The President's budget achieves a substantial portion of its savings from Medicare provider payment reductions. Many of these recommendations go further than what the Medicare Payment Advisory Commission has recommended.

In addition to looking at payment updates, I continue to strongly support linking provider payment to quality care as a way to make Medicare a better purchaser of health care services. Today, Medicare rewards poor quality care. That is just plain wrong and we need to address this problem.

Congress passed the first steps for pay for performance in 2003 in the Medicare Modernization Act. Then further steps were taken in the Deficit Reduction Act in 2005. During last year's Tax Relief and Health Care Act of 2006, we took further steps to lay the foundation for pay-for-performance in additional settings by expanding quality reporting to physicians, hospital outpatient departments, and ambulatory surgical centers.

In this year's budget, the Administration proposes the establishment of budget-neutral incentives for high quality hospitals and the creation of minimum benchmarks for low-quality hospitals.

While this proposal is a good step in the right direction, I believe that we should consider even bigger and bolder steps. We have not started all Medicare providers on the road toward value-based purchasing, and I would have liked to see such proposals in the budget.

The reporting of quality data is a good first step towards increased transparency. Just the reporting of quality data has resulted in improvements in quality for hospitals. And, I believe that consumers need access to quality and cost information on providers so that they can become more engaged in their health care decisions.

We need more transparency on health costs because beneficiaries don't know what they are paying for. Data on providers' costs and quality should be publicly available to give consumers an idea of what they're buying.

Giving consumers more direct involvement in paying for their care will prompt them to shop for the best value, ultimately choosing the highest-quality and lowest-cost care. This will increase competition, resulting in improvements throughout the health care system.

I also appreciate President Bush's leadership in putting forward a plan to help more Americans get health insurance. There are now about 47 million Americans without health care coverage.

There's no one-size-fits-all solution to the uninsured problem because people are uninsured for a lot of different reasons. We need new strategies to solve this persistent problem.

The President has correctly identified a flaw in health care tax policy. Similarly situated workers are treated very differently, depending on their employer's choice to provide or forego health coverage. The Joint Committee on Taxation estimates that over the next decade, Americans will receive more than \$1 trillion in tax benefits for health care under our current tax law.

We need to make sure those benefits are being directed wisely, get the most bang for the taxpayer's buck, and help to meet the needs of the millions of Americans without health insurance.

A plan like the President's could help level the playing field by extending the tax incentives for purchasing health coverage to the self-employed and those who purchase health coverage on their own. It also would make health insurance portable as people change jobs.

I look forward to discussing the details of this proposal so we can use it as a starting point as we address these issues in a bipartisan manner to both expand health insurance coverage and contain health care costs.

Before I conclude my opening remarks, there is one more issue I would like to bring to your attention, Secretary Leavitt. As Chairman of the Committee during the 109th Congress, I made many requests to HHS and its related agencies for information and access to people and numerous documents; many of the responses to those requests remain long overdue. For example, I discussed with you our long-standing request for a privilege log in the Ketek matter and I still have not received one. At this point in time, it is my understanding, that your staff has been instructed to ignore my outstanding Committee requests since I am no longer Chairman.

Consequently, I formally sent a letter to your office outlining my concerns in hopes that some light can be shed on the so called "long-standing" policy regarding responses to outstanding congressional requests when there is a change in leadership. In fact, just last week I was advised that there was certain information that I would not be provided. I had my staff request a letter articulating that "so-called" policy in anticipation of this hearing; but yet again I did not receive what I requested.

I think it is important for members of both parties to understand why the Administration believes it can simply ignore legitimate requests from Congress as we attempt to conduct oversight. We cannot, as members of Congress, successfully carry out our constitutional responsibility to conduct oversight when congressional requests for access to the Executive Branch are disregarded.

Mr. Secretary, thank you again for being here today and for sharing more detail on the President's proposals.